AR52

MATTAGAMI LAKE MINES LIMITED

annual report 1976

MATTAGAMI LAKE MINES LIMITED

(No Personal Liability)

ANNUAL MEETING — Mattagami Lake Mines Limited. Hotel Bonaventure, Montreal, Quebec, on Wednesday the 13th day of April, 1977, at 11:00 o'clock in the forenoon (Montreal time).

On peut se procurer la version française de ce rapport en en faisant la demande au bureau de direction de la compagnie, B.P. 45, Commerce Court West, Toronto, Ontario M5L 1B6.

Cover:
MATTAGAMI LAKE MINES,
exploration drill camp.

MATTAGAMI LAKE MINES LIMITED *(Incorporated under the laws of Quebec)*

(NO PERSONAL LIABILITY)

Head Office: MATAGAMI, QUEBEC

EXECUTIVE OFFICE:

4500 Commerce Court West, Toronto, Ontario

MINE OFFICES:

MATTAGAMI MINE,

Matagami, Quebec

Manager: Camille Marcoux

MATTABI MINE,

Ignace, Ontario

Manager: William Allan

AUDITORS:

PEAT, MARWICK, MITCHELL & CO.

Toronto, Ontario

REGISTRAR AND TRANSFER AGENT:

CANADA PERMANENT TRUST COMPANY

Vancouver, Calgary, Saskatoon, Winnipeg, Toronto, Montreal, St. John, N.B., Halifax, Charlottetown, St. John's, Nfld.

DIRECTORS:

M. W. AIRTH	Toronto
R. C. ASHENHURST	Toronto
J. M. R. CORBET	Toronto
R. G. DUTHIE	Vancouver
J. A. HALL	Toronto
N. B. KEEVIL	Vancouver
R. LETOURNEAU	Quebec
J. D. LITTLE	Vancouver
J. B. REDPATH	Toronto
W. S. ROW	Toronto

OFFICERS:

W. S. ROW	Chairman of the Board
J. A. HALL	President
R. G. DUTHIE	Vice-President
M. W. AIRTH	General Manager
R. C. ASHENHURST	Treasurer
B. H. GROSE	Secretary
B. C. BONE	Assistant Treasurer

REPORT OF THE DIRECTORS

To the Shareholders

The Board of Directors is pleased to present the Annual Report for the year ended December 31, 1976.

FINANCIAL

Consolidated net income for the year was $14,985,000 or $1.13 per share compared with $24,379,000 or $1.84 per share in 1975. Mattabi Mines Limited contributed $6,007,300. The leasing of the St. Lawrence Fertilizers plant to the owners of the Electrolytic Zinc plant gave rise to tax benefits which on consolidation appear as an extraordinary item of income amounting to $757,000 or $0.06 per share. Mattagami's share of General Smelting Company's 1976 earnings was $252,000 through its 40% interest in Federated Genco Limited.

The total production of zinc and copper contained in concentrates from the Mattagami and Mattabi operations increased 1.6% and 7.9% respectively. The revenue from zinc in concentrates was 13.9% lower whereas that from copper concentrates was 21.5% higher, compared with 1975. Revenue from zinc metal dropped 12%.

Capital expenditures totalled $9,270,000 and include the completion of the expanded electrolytic zinc reduction plant $1,173,000, the continuation of development at Lyon Lake Division $4,823,000, and the underground development project at the Mattabi mine $2,617,000.

Due to relatively low consumption of zinc metal throughout 1975 and 1976, inventories of zinc concentrates and metal remained high and at year end had an estimated realizable value of $39 million. Working capital increased $1.0 million to $57.4 million while cash position and bank loans improved by $18.1 million.

The company paid quarterly dividends of $0.25 per share on the Class A shares and 85% of that amount to the holders of Class B shares.

On February 17, 1977 a dividend of $0.25 per share on Class A common shares and $0.2125 per share on the Class B common shares was declared payable on March 16, 1977.

OPERATIONS

At the mines, operating efficiences, accident prevention and metallurgical results were maintained at high levels. However, major increases for labour, supplies and power continued to escalate production costs. Operating costs per ton milled increased 16.6% at the Mattagami mine due to lower tonnage, higher labour cost and the fact that greater ore extraction from pillars is more costly and difficult. At the Mattabi mine, unit costs increased 26.6% over the average for 1975 due partly to increased extraction of waste from the open pit and higher labour and equipment maintenance costs.

Production at the electrolytic zinc plant for 1976 averaged 56% of the expanded 225,000 tons annual capacity. This was due to weak demand for zinc metal and some early difficulty in starting up the new sections of the plant. As a result, operating expenditures and unit costs were higher than forecast.

Operations were suspended at St. Lawrence Fertilizers in April and through the remainder of the year because fertilizer prices were less than the cost of production.

Expenditures by Mattagami's Exploration Division remained constant at $2.0 million.

QUEBEC OPERATIONS

The newly-elected government of Quebec has clearly indicated that it will give the citizens of that province the opportunity to vote through a referendum on its political independence. Opinions voiced by members of government point to no early major changes in policy towards base metal mines, copper smelters, refineries and zinc reduction plants. The zinc and copper concentrates from the Mattagami mine are processed to metal in the province. The operations at Matagami and Valleyfield maintain high standards in production and technology and French is well established as the working language. The next few years will be important but your management believes that the company's mining and zinc reduction operations will continue to have an important role in the province.

In 1976 the company expended $655,000 or 32% of its mineral exploration budget in Quebec and will continue at about the same rate in 1977. In addition, $277,000 was spent in preparing for the $2.8 million deep level exploration project at the Mattagami mine property. The cost of such a project does not qualify for exploration allowances either federally or provincially in calculating income and mining taxes, despite the fact that it is an endeavour to find more mineral reserves and the risk and cost are just as high as if not higher than, those of exploration from surface.

Currently the quantity of zinc contained in concentrates and reduced to metal at the zinc plant in Valleyfield is greater than the total production from the mines in Quebec, and similarly the amount of copper refined and fabricated in Quebec exceeds mine production in the province. The decline in non-ferrous mineral resources proves the need for increased exploration efforts to restore the level of reserves. This situation is recognized by both the government and the private sector. There is every reason to be optimistic that new orebodies may be found in Quebec.

The remaining mineralized reserves of the Mattagami mine have a predictable life of some ten years under favourable economic and political conditions. Every effort is being made to extend the life of this operation and top priority is being given to the deep level project and exploration in the vicinity of the mine. The Exploration Division also has nine active projects in other areas of Quebec.

LITIGATION

As is mentioned in Note 7 to the financial statements, the company is one of the defendants in the Quebec Superior Court for alleged environmental contamination and interference in aboriginal rights.

PERSPECTIVE

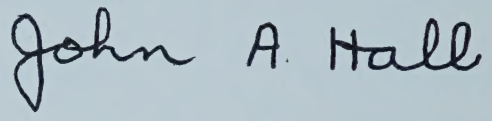
Canada's non-ferrous mining sector is experiencing a low level of exploration activity and new mine development. The escalation in capital costs and the large increase in production costs have outstripped the overall pace of inflation the past few years. Added to this is the dispirited demand for copper and zinc, climbing inventory in refined stocks and the uneconomic level of prices. Under these conditions, the average mineral prospect cannot earn a suitable return on the capital investment required to bring it to production and therefore in most circumstances it cannot be financed. Similarly, many individual producing mines are not making sufficient profit to undertake new investment. Those that can are looking to other business ventures which offer more potential for a reasonable return on investment. In general, inflation, excessive taxes and the uncertain world market conditions are discouraging expansion, technological advancement and investment in new plant and equipment. However, Mattagami believes conditions will improve gradually and continues to direct exploration expenditures in the search for base metals and uranium.

Canada's base metal mining sector has great potential for growth but substantial increases must first be obtained in the prices for most of its products. In addition, if levels of mineral production are to be tripled by the year 2000 to meet the industry's potential, as suggested by the Department of Energy, Mines and Resources, then governments must quickly establish a rational economic policy for a structure that will encourage growth.

ACKNOWLEDGEMENT

Your directors express their appreciation and thanks to all employees for their outstanding efforts throughout the year.

On behalf of the Board,



President.

Toronto, Ontario.
February 17, 1977.

METAL MARKETS

The western world was counting on renewed economic expansion in the United States in 1976 to lead general recovery. During the early months consumption of most metals picked up and buyers increased purchases to meet this demand and to replenish badly depleted inventories. Prices rose and producers increased production. In the July-October period growth in the United States economy slowed down and stocks of many metals began to rise again because production, which increased to meet an expected higher demand, was too high. At the year end most metal producers were anticipating an improvement in demand worldwide, based on an expanding U.S. economy which had resumed growth in November.

ZINC

Western World Balance – '000 Short Tons

	1974	1975	1976	Est. 1977
Supply	5,250	4,500	4,300	4,600
Consumption	5,050	3,900	4,400	4,700
Year end stocks	500	1,100	1,000	900

During the first half of 1976 zinc demand recovered rapidly from the sharply depressed levels in 1975. Inventory replenishment was a major factor as well as strong automotive demand in the United States. By mid-year, stocks had declined and smelter production rates were increased. When demand faltered in the third quarter, the surplus metal production was reflected in rising stocks, widespread price discounting in Europe and an abnormal volume of offshore exports to the United States. Mine production remained in balance with metal production due to extended strikes at major Canadian mines but there could be a temporary surplus in 1977 with the start-up of large new mines in Ireland and Spain.

The major end user of zinc is the motor vehicle industry where it is used as corrosion protection for steel and a vulcanizing agent in tires, in brass for radiators and other fittings, and as die castings for decorative and functional parts. With the requirement of the automotive industry to produce lighter weight, more fuel efficient vehicles, zinc die castings are facing a strong challenge from plastics. Thus, a major effort has been launched by the zinc industry to ensure that the thin wall die casting technology developed by the International Lead Zinc Research Organization, to enable zinc die castings to be cost and weight competitive with plastics, is recognized and applied in the automotive market.

The U.S. producer price declined in January by 2¢ to 37¢ per pound and a 3¢ increase to 40¢ in August was retroactively rescinded in October. The Canadian price was at 37¢ until August, when a 2¢ increase was ineffective, as in the U.S.A., and a currency related adjustment in October lowered the price to 36¼¢. Overseas, the published price was unchanged at U.S. $795 per metric ton.

COPPER

Western World Balance – '000 Short Tons

	1974	1975	1976	Est. 1977
Supply	7,730	6,875	7,370	7,771
Consumption	7,280	6,090	7,140	7,650
Year end stocks	975	1,760	1,990	2,111

Mine production cuts implemented in 1974-75 were largely eliminated in 1976 and production outside North America was at capacity. Despite a 17% increase in consumption, commodity exchange stocks rose 214,000 tons. Concern over interruptions in supply from CIPEC countries was abated and U.S. fabricators purchased significant forward copper for delivery in mid 1977 when there is the possibility of work stoppages affecting North American copper production.

The LME price rose from 53¢ in January to 76¢ at mid year, then declined to 54¢ in October and was 57¢ at year end. The U.S. producer price rose in three steps from 63¢ to 74¢ in the first half then fell in two stages to 65¢ by December.

SILVER

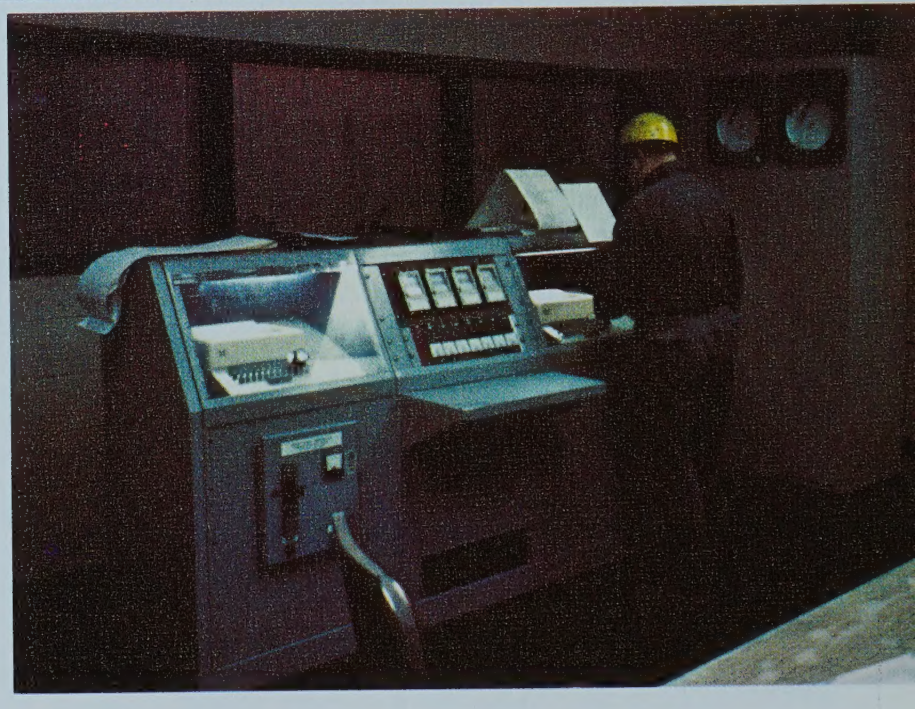
Western World Balance – '000,000 Troy Ounces

	1974	1975	1976	Est. 1977
Supply	423	426	447	428
Consumption	458	402	437	450
Surplus (deficit)	(35)	24	10	(22)

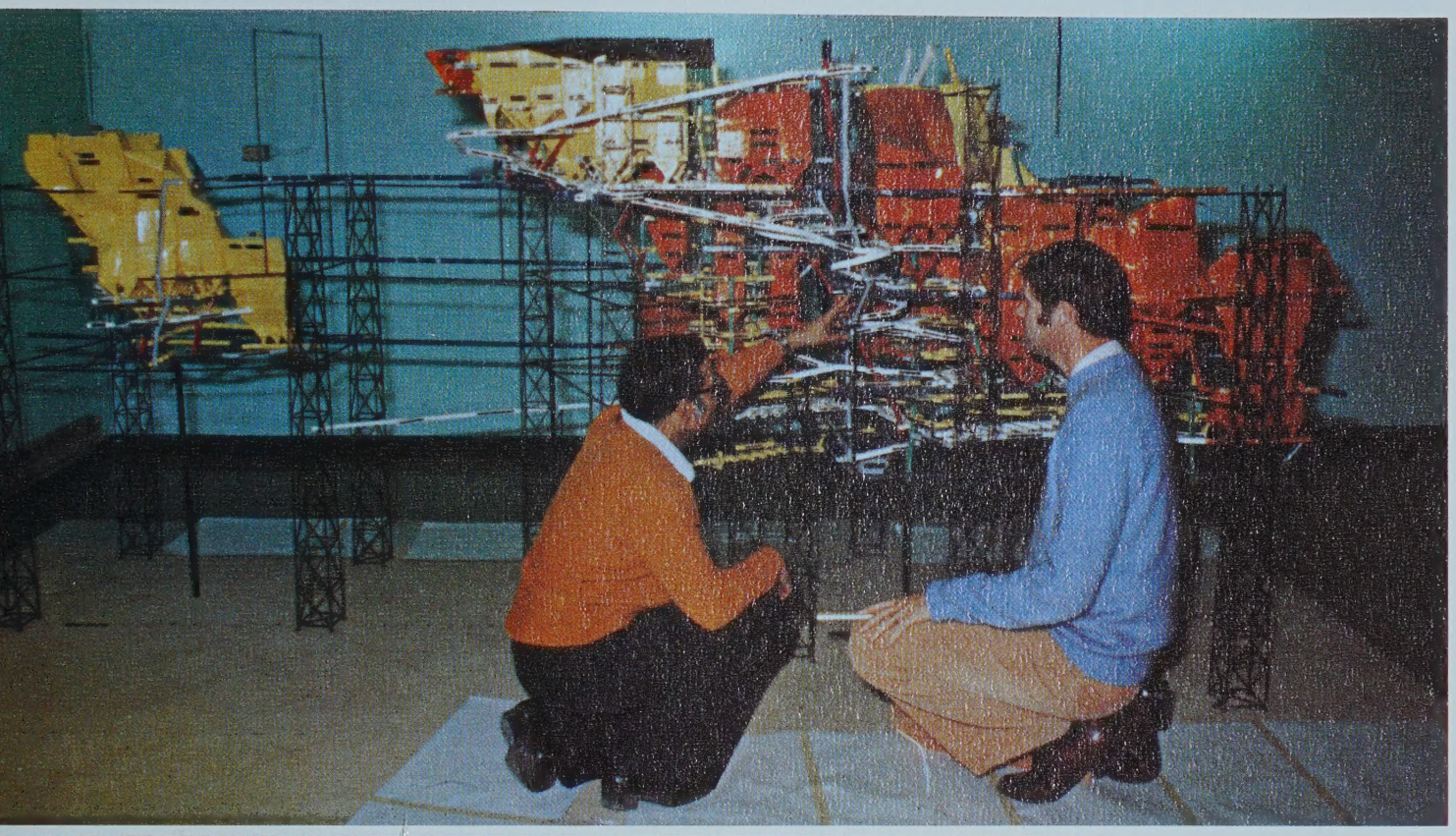
Prices followed the pattern of most commodities, rising throughout the first half, to a peak of $5.10 in July, before declining to $4.30 at year end. The market was in close balance and trading was influenced by the trends in gold and other commodity markets.

In October, the U.S. Federal Preparedness Agency proposed that the GSA strategic stockpile of 140 million ounces be sold at spaced intervals. While Congressional approval in 1977 is uncertain, potential supplies from this source could continue to influence price expectations.

Electrolytic Zinc plant, Valleyfield, P.Q.



Gunnars Reboks in process computer control room at Mattagami mine.



Peter Mathias, Chief Engineer and Jacques Viljoen, Chief Technician, Engineering Dept., examining three-dimensional model of Mattagami mine.

Scooptram exiting from portal at Lyon Lake decline.

REPORT OF THE GENERAL MANAGER

To the shareholders:

The following is a report on operations at Mattagami Lake Mines Limited, Matagami, Quebec, Mattabi Mines Limited, Ignace, Ontario, as well as other developments in which the company is interested.

MATTAGAMI LAKE MINES, Matagami, Quebec.

Production:	1976	1975
Ore milled – Dry tons	1,225,942	1,285,703
Daily rate – Tons	3,350	3,522
Calculated grade – Ore milled		
Zinc – %	7.3	7.3
Copper – %	0.55	0.62
Silver – Oz/ton	0.93	0.86
Gold – Oz/ton	0.014	0.014
Zinc concentrate produced		
Short dry tons	154,889	162,236
Grade – % Zinc	52.7	53.1
Copper concentrate produced		
Short dry tons	20,539	24,882
Grade – % Copper	24.2	24.1
Silver – Oz/ton	14.73	10.73
Gold – Oz/ton	0.203	0.180

Distribution of zinc concentrates was as follows:

Canadian Electrolytic Zinc, Valleyfield, Que.	75.9%
Quebec City for export	24.1%

All of the copper concentrate was trucked to the smelter of Noranda Mines Limited, Noranda, Quebec.

Milling

The concentrator operated smoothly throughout the year, although the mill rate was reduced somewhat from the year previous. Grade of mill feed remained unchanged from 1975 and recoveries were as follows:

	1976	1975
Zinc – %	91.6	92.4
Copper – %	73.8	75.6

Stable circuit operation due to computer control contributed in maintaining metal recoveries at a high level despite variations in grade of mill feed from time to time.

The rod mill operated at 94.2% of the possible time.

Mining

The mining of the Mattagami orebodies continued in an orderly fashion with the major part of the stoping sections having been mined out to the extremities of the orebodies and the intervening pillars now being mined on a retreating pattern toward the centre.

During the year 69% of the mill feed came from pillars.

The mining of the crown pillar continued throughout the year and provided a considerable part of the mill feed. Drawing of ore from mining section 50 to mining section 54, the entire southeast portion of the orebody, was completed during the year and was prepared for backfilling. This large block contained about 4 million tons.

Tonnage of ore drilled off in stopes and ready for blasting totalled 914,000 tons at a grade of 8% zinc and 0.63% copper.

The deep exploration project, consisting of the driving of a decline from the 870-foot level to the 2000-foot level was well on the way by year end. This programme will take several years to complete and will provide access for diamond drilling down to 4000 feet below surface in the favourable geological environment below the No. 1 Orebody.

Ore Reserves

Proven ore reserves calculated to mining outline, and without allowance for dilution, are as follows:

Orebody	Tons	Zinc %	Copper %	Silver Oz/ton	Gold Oz/ton
No. 1	9,317,000	7.1	0.58	0.015	0.95
No. 2	288,000	8.0	0.61	0.015	0.95
Total	9,605,000	7.1	0.58	0.015	0.95

Ore reserves were completely recalculated during the year using present economic factors and specific gravities of the remaining mining areas.

Personnel

Once again there was a slight reduction in the average number of employees during the year, being 422 compared with 429 for 1975. At year end the total number on the payroll was 399. Turnover also showed a decrease and stood at 1.4% per month. At year end 88% of our employees had a seniority of one year or more.

There were 9 compensable injuries during the year resulting in an accident rate of 11.1 compensable injuries per million manhours worked. This compares with a rate of 9.7 for 1975 and a provincial accident rate of 27.4.

General

The population of the Town of Matagami seems to have stabilized with the relocation of people connected with the James Bay project to the new town of Radisson, 450 miles to the north. Housing accommodation is adequate for present needs in town.

The collective agreement expires in June 1977.

MATTABI MINES LIMITED, Ignace, Ontario

The mine, owned 60% by Mattagami Lake Mines and 40% by Abitibi Paper Co., is located 50 miles north of the town of Ignace on Highway 599 in northwestern Ontario.

Production at the mine is summarized in the following table.

Production:	1976	1975
Ore milled — Dry tons	1,065,711	1,074,923
Daily tonnage	2,912	2,945
Calculated grade of ore milled		
Zinc — %	8.13	7.34
Copper — %	1.23	0.97
Lead — %	0.76	0.70
Silver — Oz/ton	3.53	3.23
Gold — Oz/ton	0.007	0.007
Zinc concentrate — tons	139,095	127,892
Zinc — %	54.36	53.69
Recovery — %	87.30	87.01
Copper concentrate — tons	41,599	36,999
Copper — %	26.20	23.52
Recovery — %	83.20	83.18
Lead concentrate — tons	4,344	3,939
Lead — %	51.93	50.77
Recovery — %	28.0	26.46
Silver in Copper and Lead Concentrates — ounces	2,505,178	2,123,150
Recovery of silver — %	66.57	61.12

Zinc concentrates were shipped to the United States and to Quebec City for export. Copper concentrates were shipped to the smelter of Noranda Mines Limited at Noranda, Quebec, and lead concentrates were shipped to Western Canada for treatment and to Europe.

There were no stockpiles of any concentrates at the mine at year end.

Milling

The mill operated at very close to design capacity throughout the year. Grade of mill feed was higher than that in 1975 in all components, and concentrate production was substantially higher. Metallurgy was good and recoveries of all metals were increased, in part due to stable flotation circuit control due to process computer. Grade of copper concentrate at 26.20% showed a marked improvement over 1975, and production of silver was substantially higher. The process control computer is proving to be of great value in dealing with fluctuations in grade which occur when mining different sections of the pit.

Protection of the environment forms a substantial part of the operation of the plant and a great deal of time, energy, and money is spent in maintaining the quality of the receiving streams at or near the government effluent standards. It is expected that an automatic tailing effluent treatment plant at the point of discharge into the general water system will be built in 1977.

Mining

Mining operations showed continued improvement throughout the year until sub-normal temperatures during the late fall forced a reduction in waste extraction. Pit production for the year of ore, waste and overburden totalled 4,106,000 tons compared with 3,413,000 tons in 1975. Waste to ore ratio for the year was 2.5 to 1.

In the underground development project, declines have been completed for ventilation and access purposes. The project has been halted at this point pending assessment of additional underground diamond drilling which will be carried out from extensions to the 850 foot level.

A total of 21,728 feet of surface diamond drilling was completed during the year in our continuing long range systematic property exploration programme. No economic mineralization was encountered.

Ore Reserves

At year end ore reserves totalled 6,500,000 tons of 6.89% zinc, 0.7% copper, 0.68% lead, and 2.67 oz/silver per ton. Reserves were reduced from 1975 figures by tonnage milled, reinterpretation of deeper ore lenses following diamond drilling from underground and economic reasons. Some 1.5 million tons were placed in a sub-ore category, all or part of which may be treated under more favorable economic conditions.

General

The work force at year end totalled 307 employees compared with 291 at the end of 1975. Turnover per month averaged 5.7%. The proportion of employees with one year or more of service has increased to 65.5% from 63.5% the year previous.

The construction of 24 houses, built under the company plan, was completed during the year. The new arena-curling rink complex, built with company assistance, was opened and a start was made on the construction of a shopping plaza and a new mobile home park. A contract was let for the paving of some streets in town and sewer and water services were extended.

A two-year collective agreement was negotiated in July 1976.

MATTAGAMI LAKE MINES
LYON LAKE DIVISION, Ignace, Ontario

Mine Development

By mid-October 1976 the shaft had been completed to its design depth and stations had been cut at 200-foot intervals. The main sumps had been completely excavated and dams, floors and equipment bases had been poured. All the shaft services had been completed with the exception of the loading station which was 30% complete at year end.

A separate access to the ore zones by means of a decline in the Creek orebody area was commenced in May and by year end 5,500 feet of development in that area had been completed. The Creek orebody was intersected and average grade of the orebody at that point was 9.23% zinc, 1.60% copper, 6.44 ounces silver per ton and 1.12% lead, up to or exceeding expectation.

The first bored raise from surface to the 200-foot level for ventilation initially, and backfill ultimately, in the Creek area was successfully completed prior to Christmas.

A large portion of the mine planning and engineering has been completed with the related lateral development work, stope preparation, crusher installation, etc., scheduled for 1977. From time to time during the year, it is planned to run batches of development ore through the Mattabi concentrator to determine the milling characteristics.

Lyon Lake intends to take over a portion of this underground development from the contractors early in 1977 and for that reason there were 41 employees on the payroll at year end in readiness for the take-over.

Ore Reserves

There was no change to the reserves which remain at 4,030,000 tons grading 6.66% zinc, 1.15% copper, 0.63% lead, 3.39 ounces silver and 0.010 ounces gold per ton.

EXPLORATION DIVISION

Mattagami continued its active program of exploration throughout 1976 as a total of $2 million was expended in the provinces of New Brunswick, Quebec, Ontario, Alberta, British Columbia and the North West Territories. Field offices were maintained at Matagami, Quebec; Thunder Bay, Ontario and Edmonton, Alberta, to service the field crews and receive outside property submissions. In eastern Canada, the search was mainly for base metals, especially in the Matagami, Quebec and Sturgeon Lake, Ontario, areas where Mattagami currently is operating ore treatment facilities. In Western Canada, exploration programs were oriented mainly towards the search for uranium and molybdenum deposits. The monthly payroll averaged 35 employees, not including 22 students hired for the summer field season. Mattagami, as of December 31, 1976, excluding its two producing mining properties, controlled the mineral rights on mining claims, leases and permit areas totalling 210,045 acres, an increase of 90,261 acres from the December 31, 1975 total.

During 1976, Mattagami carried out exploration programs on 34 properties or project areas including 18 carried over from 1975 and 16 new programs initiated during the past year. Work on the various projects included 7,916 line miles airborne geophysical surveying, 1,057 claims staked, 623 miles line cutting, geological mapping, 1,168 miles ground geophysical surveys, trenching, assaying and metallurgiacl testing. In addition, 110 diamond drill holes totalling 50,428 feet were completed on 15 properties to assess anomalous situations resulting from survey work. Fifty-seven outside properties were submitted for Mattagami's consideration in 1976 of which five were optioned as recommended by Mattagami's geologists. Twelve of the 1976 projects were under option or being jointly explored with other mining concerns, all under Mattagami's management except one. Although no economic mineral deposits were discovered by Mattagami in 1976, results were sufficiently encouraging on 17 projects to warrant continuing exploring of them in 1977.

ACKNOWLEDGEMENT

Finally, it is with thanks that I recognize the efforts of the talented and loyal employees across Canada who have contributed so much to the success of the company. I record with pleasure once again the full cooperation received from Mr. Camille Marcoux, Manager of Mattagami Lake Mines, Mr. William Allan, Manager of Mattabi Mines, Mr. John D. Harvey, Manager of Exploration, and Mr. James R. Wilson, Superintendent of the Lyon Lake Division, their staffs and all their employees. I record also the continuing support and guidance received from the officers and directors of the company and to all I extend my deep appreciation.

Respectfully submitted,

Toronto, Ontario,
February 17, 1977.

MURRAY W. AIRTH, P.Eng.
General Manager

MATTAGAMI LAKE MINES LIMITED
(NO PERSONAL LIABILITY)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF NET INCOME AND RETAINED EARNINGS

Year ended December 31, 1976

with comparative figures for 1975

	1976	1975
	(in thousands)	
Revenue from production	$ 95,578	107,945
Expense:		
Costs of production	46,721	44,746
Administration and corporate	1,086	937
Exploration	1,993	1,489
Depreciation (note 1)	6,293	5,872
Amortization (note 2)	1,963	1,233
Interest	908	657
	58,964	54,934
Net operating income	36,614	53,011
Investment and other income	1,226	1,920
	37,840	54,931
Income and mining taxes:		
Current	17,728	22,760
Deferred	2,107	3,375
	19,835	26,135
	18,005	28,796
Minority interest in net income of subsidiaries	3,777	4,417
Net income before extraordinary item	14,228	24,379
Extraordinary item (note 3)	757	—
Net income for the year	14,985	24,379
Retained earnings at beginning of year	94,934	87,771
	109,919	112,150
Dividends	13,244	17,216
Retained earnings at end of year	$ 96,675	94,934
Earnings per share:		
Before extraordinary item	$1.07	1.84
After extraordinary item	$1.13	1.84

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

MATTAGAMI LAKE MINES LIMITED *(Incorporated under the laws of Quebec)*
(NO PERSONAL LIABILITY)
AND SUBSIDIARIES

CONSOLIDATED BALANC
with comparati

ASSETS

	1976	1975
	(in thousands)	
Current assets:		
Cash and short-term investments	$ 2,535	963
Marketable securities	5,415	5,415
Accounts and settlements receivable	22,981	15,554
Mine products	50,530	64,306
Materials, supplies and prepaid expenses	5,947	5,340
	87,408	91,578
Fixed assets:		
Property, plant and equipment (note 1)	111,562	109,175
Less accumulated depreciation	58,359	52,928
	53,203	56,247
Mining property and rights (note 2)	4,635	5,368
	57,838	61,615
Other assets:		
Investments	3,027	2,983
Preproduction and deferred development	17,354	12,563
Other	1,149	2,403
	21,530	17,949
	$ 166,776	171,142

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

HEET – DECEMBER 31, 1976

ures for 1975

LIABILITIES

	1976	1975
	(in thousands)	
Current liabilities:		
Bank loans and acceptances	$ –	16,522
Accounts payable and accrued liabilities	11,310	8,150
Income and mining taxes	18,511	10,304
Current portion of long-term debt	194	154
	30,015	35,130
Long-term debt:		
6% bonds, maturing 1980	900	1,200
6½% debentures, maturing 1980	600	800
	1,500	2,000
Minority interest in subsidiaries	22,404	23,814
Deferred income and mining taxes	7,731	6,856
Shareholders' equity:		
Capital stock (note 4)	6,664	6,621
Contributed surplus	1,787	1,787
	8,451	8,408
Retained earnings	96,675	94,934
	105,126	103,342
Commitments (note 5)		
	$ 166,776	171,142

On behalf of the Board:

W. S. ROW, Director

J. A. HALL, Director

MATTAGAMI LAKE MINES LIMITED
(NO PERSONAL LIABILITY)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1976

with comparative figures for 1975

	1976	1975
	(in thousands)	
Working capital at beginning of year	$ 56,448	58,654
Funds provided:		
From operations:		
Net income before extraordinary item	14,228	24,379
Minority interest in net income of subsidiaries	3,777	4,417
Charges not requiring funds:		
Depreciation and amortization	8,256	7,105
Deferred income and mining taxes	2,107	3,375
	28,368	39,276
Stock options exercised	43	—
Other, net	1,254	(420)
Total funds provided	29,665	38,856
Funds used:		
Property, plant and equipment, net	3,249	8,950
Preproduction and deferred development	6,021	7,453
Repayment of long-term debt	500	—
Dividends	13,244	17,216
Minority interest in dividends of subsidiaries	5,245	7,279
Minority interest in advances repaid by subsidiary	417	—
Increase in investment	44	164
Total funds used	28,720	41,062
Net increase (decrease)	945	(2,206)
Working capital at end of year	$ 57,393	56,448

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
December 31, 1976

Mattagami Lake Mines Limited is a public company incorporated under the laws of the Province of Quebec. The company operates a zinc and copper mine in Quebec and is developing mines in Ontario. Its principal subsidiaries are Mattagami Refining Inc., which participates in the operation of an electrolytic zinc reduction plant in Valleyfield, Quebec, and Mattabi Mines Limited, which operates a zinc and copper mine in Ontario. The company has contracted with a subsidiary of Noranda Mines Limited to act as its agent in selling its mine products.

These consolidated financial statements conform with accounting principles and practices generally accepted in Canada. A summary of the significant policies are as follows:

(i) **Basis of financial statement presentation:**

The consolidated financial statements include the accounts of Mattagami Lake Mines Limited and all its subsidiaries. A long term investment of one of the Company's subsidiaries is accounted for on the equity basis.

(ii) **Investments:**

Marketable securities are recorded at cost which approximates market value.

(iii) **Inventories:**

Mine products produced and purchased are valued at estimated net realizable value. Materials and supplies are valued at cost.

(iv) **Fixed assets:**

Mine plant and equipment is being depreciated using a straight line method based on the estimated physical lives of the assets and the economic life of each mine. Mining properties and rights are amortized on a straight line basis over the estimated economic life of each mine. At present, the period of depreciation and amortization is over the next seven years.

The zinc plant assets are being depreciated over a fifteen year period.

(v) **Preproduction and deferred development:**

The costs of preproduction and development are deferred until the assets are utilized in production and are then amortized on a straight line basis over an appropriate period for each mine, which is presently three to seven years.

(vi) **Exploration expenditures:**

Exploration expenditures are charged against current income unless they relate to properties from which production is reasonably certain, in which case, expenditures are capitalized as preproduction and deferred development.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1976

1. **Property, plant and equipment:**

Prior to 1976 certain of the mine plant and equipment was being depreciated on a straight line basis until 1978. In view of the most recent estimate of ore reserves, amortization to income of the undepreciated balance at December 31, 1975 has been extended. During 1976 the zinc plant expansion became operational and was integrated with the existing plant which, prior to 1976, was being depreciated on a straight line basis until 1981. The integrated plant is now being depreciated over fifteen years.

As a result of these changes in estimates, depreciation has decreased by approximately $1,260,000 for 1976 and net income has increased by approximately $800,000 or $.06 per share.

2. **Mining properties and rights:**

Prior to 1976 mining property and rights were not amortized. During the current year, the company commenced to amortize these amounts and as a result, amortization has increased by approximately $730,000 and net income has decreased by approximately $380,000 or $.03 per share.

3. Extraordinary item:

The extraordinary item results from the recognition, in a subsidiary, of certain income tax benefits relating to prior years but not recorded until there was reasonable assurance that the company could utilize them.

4. Capital stock:

Authorized capital stock consists of 20,000,000 Class A and 20,000,000 Class B common shares without par value. Shares of each class may be converted into shares of the other class at any time at the option of the holder. However, the combined issued and outstanding shares of both classes may not exceed 20,000,000. Class B shareholders are entitled to receive, when declared by the board of directors, dividends out of either tax-paid undistributed surplus on hand or 1971 capital surplus on hand, as defined in the Income Tax Acts. In all other respects Class A and B shares rank equally.

Shares issued and outstanding at December 31, 1976 are as follows:

Class A	13,043,853
Class B	202,047
	13,245,900

At December 31, 1976, options on 11,700 shares were outstanding under the company's stock option plan at prices varying from $11.66 to $17.31 for periods up to 1982. Options on 3,700 shares were exercised during 1976 at a price of $11.66 cash per share.

5. Commitments:

Estimated capital expenditures approximate $8,000,000 for 1977 and $4,500,000 for 1978.

6. Temporary economic controls:

The company is subject to, and believes it has complied with, the Anti-Inflation Act and Regulations which provide for restraints on prices, profit margins, compensation and dividend payments to shareholders.

7. Litigation:

The company is one of fifteen defendants in an action for $8,034,000 and an injunction which is being contested in the Superior Court of the Province of Quebec, for alleged environmental contamination and interference with aboriginal rights of Cree Indians In Northern Quebec. The company is confident that no liability will arise as a result of this litigation.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Mattagami Lake Mines Limited (No Personal Liability) as at December 31, 1976 and the consolidated statements of net income and retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change in policy with respect to the amortization of mining property and rights referred to in note 2 to the consolidated financial statements, were applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 10, 1977

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Printed in Canada.

MINES LAC MATTAGAMI LIMITÉE
(Libre de responsabilité personnelle)

RAPPORT INTÉRIMAIRE AUX ACTIONNAIRES

ÉTAT FINANCIER CONSOLIDÉ — non vérifié

	Pour le semestre terminé le 30 juin 1976	1975
	(en milliers)	
EXPLOITATION		
Revenus de la production	$ 49,356	$ 59,650
Dépenses		
Coût de la production	23,816	22,943
Frais d'exploration	946	773
Amortissement et dépréciation	4,280	4,289
	29,042	28,005
Revenus nets d'exploitation	20,314	31,645
Revenus des placements	506	1,240
Revenus avant paiements d'impôts et d'intérêts	20,820	32,885
Frais d'intérêts	688	104
Impôt sur le revenu et la production	12,457	16,207
	13,145	16,311
Revenus nets avant déduction des participations minoritaires	7,675	16,574
Participation minoritaire aux gains des filiales	906	3,003
Revenu net	$ 6,769	$ 13,571
Revenu net l'action (13,244,200)	$0.51	$1.02
ÉVOLUTION DE LA SITUATION FINANCIÈRE		
Source		
Exploitation — revenus nets	$ 6,769	$ 13,751
— amortissement et dépréciation	4,280	4,289
— impôts sur le revenu et la production (reporté)	1,970	916
— participation minoritaire aux gains des filiales	906	3,003
— participation aux gains des compagnies associées	(145)	(154)
Divers	710	365
	14,490	21,990
Utilisation		
Amortisement de la dette à long terme	500	375
Immobilisation (net)	1,511	5,295
Frais d'exploration et de mise en valeur (reportés)	1,984	4,087
Dividendes	6,622	10,594
Participation minoritaire aux dividendes des filiales	1,200	4,000
Augmentation (diminution) du fonds de roulement	2,673	(2,361)
Fonds de roulement au 1er janvier	56,448	58,654
Fonds de roulement au 30 juin	$ 59,121	$ 56,293

Le profit de 51¢ l'action pour le premier semestre se situe à 50% de moins que pendant la période correspondante de 1975.

Les pertes subies par Les Engrais du St-Laurent ont fait diminuer les profit de 7¢ l'action. Cette usine de fabrication d'engrais a été fermée pour une période indéfinie ce qui a mis fin aux pertes. Des économies d'impôts pourraient faire recouvrer une partie de la perte.

A la Canadian Electrolytic Zinc, la production avait été prévue à un rythme réduit pendant les six premiers mois afin d'utiliser de façon plus efficace la main-d'oeuvre et l'énergie électrique ainsi que pour étudier des problèmes survenus pendant la mise au point de l'usine agrandie. Les problèmes causés par des travaux de construction de qualité inférieure et quelques erreurs de conception ont réduit le rythme de production prévu, ce qui a atteint les profits. Les modifications et les corrections sont parachevées en grande partie. On prévoit que la production atteindra une moyenne de 85% de la nouvelle puissance nominale pour le reste de l'année, après une fermeture de trois semaines en juillet pour les vacances.

Les mines Lac Mattagami et Mattabi ont obtenu de bons résultats en matière de productivité et de rendement. A Mattabi, le syndicat a ratifié un contrat de travail de deux ans. Cette exploitation a apporté une contribution de $2,773,000 (21¢ l'action) aux profits pendant le semestre. Les travaux préparatoires se déroulent selon l'horaire prévu à la Division Lyon Lake.

Les administrateurs ont déclaré un dividende de 25¢ l'action pour les actions ordinaires de la catégorie A et de 21¼¢ l'action dans les cas des actions ordinaires de la catégorie B, tous deux payables le 16 septembre 1976 aux actionnaires inscrits en date du 13 août 1976.

Toronto, Ontario
29 juillet, 1976

Le président
J. A. HALL

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MATTAGAMI LAKE MINES LIMITED
(No Personal Liability)

INTERIM REPORT TO SHAREHOLDERS

Six Months Ended June 30
1976

MATTAGAMI LAKE MINES LIMITED

(No Personal Liability)

INTERIM REPORT TO SHAREHOLDERS

CONSOLIDATED FINANCIAL SUMMARY — unaudited	For the six months ended June 30 1976	1975
	(in thousands)	
OPERATIONS:		
Revenue from production	$ 49,356	$ 59,650
Expense		
Cost of production	23,816	22,943
Exploration expenses	946	773
Depreciation and amortization	4,280	4,289
	29,042	28,005
Net operating income	20,314	31,645
Investment income	506	1,240
Income before interest expense and taxes	20,820	32,885
Interest expense	688	104
Income and production taxes	12,457	16,207
	13,145	16,311
Net income before deduction of minority interest	7,675	16,574
Minority interest in earnings of subsidiaries	906	3,003
Net income	$ 6,769	$ 13,571
Earnings per share (13,244,200)	$0.51	$1.02
CHANGES IN FINANCIAL POSITION		
Source:		
Operations — net income	$ 6,769	$ 13,571
— depreciation and amortization	4,280	4,289
— income and production taxes deferred	1,970	916
— minority interest in earnings of subsidiaries	906	3,003
— share of earnings of associate	(145)	(154)
Other	710	365
	14,490	21,990
Application:		
Reduction of long-term debt	500	375
Fixed assets (net)	1,511	5,295
Deferred exploration and development	1,984	4,087
Dividends	6,622	10,594
Minority interest in dividends of subsidiaries	1,200	4,000
	11,817	24,351
Increase (decrease) in working capital	2,673	(2,361)
Working capital, January 1	56,448	58,654
Working capital, June 30	$ 59,121	$ 56,293

Profit of 51¢ per share for the first six months of 1976 was 50% lower than the comparable period 1975.

Losses at St. Lawrence Fertilizers reduced profits by 7¢ per share. The fertilizer plant has been closed indefinitely and the losses have been essentially stopped. Some of the losses may be recovered through tax savings.

Production at Canadian Electrolytic Zinc was scheduled at a reduced rate for the first six months to make efficient use of labour and electric power, as well as to work out problems encountered in the tune up of the expanded zinc plant. The problems caused by sub-quality workmanship in construction and some design errors did reduce the rate of production below plan and adversely affected profits. Alterations and corrections are now mainly finalized. Production is expected to average 85% of expanded capacity for the balance of the year following a three week plant closure for vacation in July.

The operating mines, Mattagami and Mattabi, had good productivity and performance. A two year labour contract was ratified by the union membership at Mattabi. This operation contributed $2,773,000, or 21¢ per share, for the six months. Development at the Lyon Lake Division is proceeding on schedule.

The Directors have declared a dividend of $0.25 per share on the Class A common shares and $0.2125 per share on the Class B common shares, both payable September 16, 1976 to shareholders of record at the close of business on August 13, 1976.

Toronto, Ontario,
July 29, 1976.

J. A. HALL,
President.

MINES LAC MATTAGAMI LIMITÉE

(Libre de responsabilité personnelle)

RAPPORT INTÉRIMAIRE AUX ACTIONNAIRES

Pour le semestre terminé le 30 juin 1976